



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 6/12/2002

GAIN Report #BG2003

Bangladesh

Cotton and Products

Annual

2002

Approved by:

Clarissa Valdivia

U.S. Embassy

Prepared by:

Sayed Sarwer Hussain

Report Highlights:

Bangladesh cotton imports in MY2001/02 are estimated at a record 215,000 tons up by 11.5 percent over last year's imports. US market share reached approximately 29 percent of total imports. MY2002/03 imports of cotton are projected at 225,000 tons and US share is forecast at 75,000 tons.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
New Delhi [IN1], BG

Table of Contents

SECTION I: SITUATION AND OUTLOOK	Page 2 of 14
Production	Page 2 of 14
Consumption	Page 2 of 14
Trade	Page 3 of 14
Marketing	Page 4 of 14
SECTION II: STATISTICAL TABLES	Page 5 of 14
Table 1: Commodity, Cotton, PSD table (metric tons)	Page 5 of 14
Table 2: Commodity, Cotton, PSD table (480 lbs bales)	Page 6 of 14
Table 3: Cotton, Import Trade Matrix	Page 7 of 14
Table 4: Yarn, Import Trade Matrix	Page 8 of 14
Table 5: Fabrics, Import Trade Matrix	Page 9 of 14
Table 6: Production and Consumption estimates of Yarn and Fabrics	Page 10 of 14
Table 7: Duty Structure of Textile Sector	Page 10 of 14
Table 8: Area and Production of Raw cottons in Bangladesh	Page 10 of 14
SECTION III: NARRATIVE ON SUPPLY, DEMAND POLICY AND MARKETING	Page 11 of 14
Production	Page 11 of 14
Production policy	Page 11 of 14
Consumption	Page 12 of 14
Trade	Page 12 of 14
Trade Policy	Page 13 of 14
Marketing	Page 13 of 14

SECTION I: SITUATION AND OUTLOOK

Production

MY 2002/03 production area of raw cotton is forecast to decline slightly (2 percent) to 50,000 hectares due to reduced procurement prices of raw cotton by the government and tougher competition from summer and early winter crops. Assuming a relatively normal monsoon and normal infestation of pests the output is forecast at 14,500 tons. Bangladesh raw cotton production in MY2001/02 is estimated at 14,550 tons. This production is nearly double that of MY2000/01 which was severely affected by floods.

Man-made fiber (polyester) production is facing tougher competition from natural fiber (cotton) due to cheap cotton yarn from neighboring Asian countries as well as depressed import prices of raw cotton. As a result, production of man-made fiber has been declining in recent years and is estimated at 1400 tons in MY 2001/02. It is forecast at 1200 tons in MY2002/03.

Due to the huge stock of yarn and fabrics, the growth of production of these two items are unlikely to be considerable and are forecast at 200,000 tons and 1.20 billion meters, respectively, for the MY2002/03. The 25 percent cash incentives provided by the Government for export-oriented yarn and fabric manufacturers remain suspended. Entrepreneurs in this sector have huge stocks of yarn but are experiencing an acute shortage of cash.

Estimates for MY2001/02 yarn production are 186,000 tons, up by 6 percent over last years production of 174,000 tons due to increased availability of raw cotton at low prices. MY2001/02 fabric production estimates are 1.19 billion meters up by 1.5 percent over the previous years production, which was 1.172 billion meters.

The small-scale handloom industry dominates the weaving sub-sector in terms of production of fabrics, supplying about 60% of the local fabric requirement, with a production capacity of around 650 million meters of fabric. This industry currently exports about 15 million meters of cotton check fabric, through the export oriented RMG industry.

Consumption

MY2002/03 forecast for raw cotton consumption is 240,000 tons, which benefitted from new spinning mills coming into production but also adjusted for the high stock. Consumption of raw cotton in MY2001/02 is estimated at 220,050 tons, which is about 12.24 percent higher than the MY2000/01 estimate of 196,400 tons. Increasing demand from the rapidly growing private spinning sector as well as continued lower cotton import prices have contributed to high growth in the consumption of raw cotton.

The consumption of yarn and fabrics in MY2002/03 is expected to increase slightly due mainly to increases in demand resulting from population growth. Yarn and fabric consumption is projected at 500,000 tons and 3.72 billion meters, respectively. Consumption of cotton yarn is

estimated at 495,000 tons in MY2001/02, out of which 145,000 tons were used for domestic consumption and the remaining 350,000 tons were used for export-oriented hosiery, knitwear, and fabrics. Total fabric consumption in MY2001/02 is estimated to increase slightly to 3.7 billion meters from 3.675 billion in MY2000/01. The share of local consumption of fabrics is estimated at 1.20 billion meters while the remaining 2.5 billion meters were used in export oriented garment production.

Trade

Imports of raw cotton have been growing very fast in recent years due to insufficient local production, growing requirements of the spinning sector, and low international prices. In MY2002/03 raw cotton imports are forecast at 225,000 tons. In MY2001/02 cotton imports are estimated at 215,000 tons, 11.5 percent up compared to last years imports (192,000 tons).

Export oriented spinning mills in Bangladesh prefer the high quality cotton of the US to CIS cotton. The United States has been the principal supplier of raw cotton during MY2001/02, while the CIS has appeared to be the major competitor in terms of volume of export. The competitive prices of US cotton in MY2001/02 helped boost imports from the US by 50 percent compared to last years imports. Other major origins are Australia, Africa, and Pakistan.

Although the production capacity of the spinning mills is growing quite commendably, it is not replacing imports because local textile mill owners are finding yarns from international markets at lower prices. Imports of cotton yarns in CY2002 yarn are expected to decrease slightly and are projected at 300,000 tons against an estimated import of 308,000 tons in CY2001. India is enjoying a 74 percent share of Bangladesh's yarn imports. Moreover, huge quantities of Indian yarns irrespective of quality enter into Bangladesh via informal marketing channels (smuggling through land borders) and are becoming a major concern among local spinning mill owners.

Fabric imports in CY2001 are estimated at 2.520 billion meters. China has about an 80 percent share of Bangladesh cotton fabric imports. Trade sources believe that Chinese fabric prices are heavily subsidized. Due to higher domestic demand, in spite of reduced requirements for RMF, imports of fabrics during the CY2002 are forecast at 2.50 billion meters, almost the same as CY2001.

Marketing

Bangladesh is a growing market for ELS and superior quality cottons. Around 30% of cotton imports are meant for the export oriented spinning units. The new generation spinning mills are familiar with US Pima and Upland cotton and appreciate US quality, consistency and better ginning out turn. They are ready to pay a reasonably higher price for it. But high freight costs and longer delivery period lead Bangladeshi importers to source their cotton from other origins. To retain its present high share of the Bangladesh cotton import market, US cotton prices will have to remain competitive. The spinning sub sector of Bangladesh is growing rapidly both in terms of quality and quantity. But it is still facing difficulties with the high cost of production compared to the

cost of imported yarns, especially from India.

SECTION II: STATISTICAL TABLES

Table 1: Commodity, Cotton, PSD table (metric tons)

PSD Table							
Country:	Banglade sh						
Commodity:	Cotton						
		2000		2001		2002	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		08/2000		08/2001		08/2002	(MONTH/YEAR)
Area Planted	32000	29100	35000	51100	0	50000	(HECTARES)
Area Harvested	15965	15965	35000	50000	0	50000	(HECTARES)
Beginning Stocks	21200	22000	13200	25000	0	34500	METRIC TONS
Production	7000	7400	13000	14550	0	14500	METRIC TONS
Imports	175000	192000	180000	215000	0	225000	METRIC TONS
TOTAL SUPPLY	203200	221400	206200	254550	0	274000	METRIC TONS
Exports	0	0	0	0	0	0	METRIC TONS
USE Dom. Consumption	189700	196000	194700	219600	0	239400	METRIC TONS
Loss Dom. Consumption	300	400	300	450	0	600	METRIC TONS
TOTAL Dom. Consumption	190000	196400	195000	220050	0	240000	METRIC TONS
Ending Stocks	13200	25000	11200	34500	0	34000	METRIC TONS
TOTAL DISTRIBUTION	203200	221400	206200	254550	0	274000	METRIC TONS

Table 2: Commodity, Cotton, PSD table (480 lbs bales)

PSD Table							
Country:					Conversion	0.004593	
Commodity:							
		2000		2001		2002	UOM
	Old	New	Old	New	Old	New	
Market Year Begin							(MONTH/YEAR)
Area Planted	32000	29100	35000	51100	0	50000	(HECTARES)
Area Harvested	15965	15965	35000	50000	0	50000	(HECTARES)
Beginning Stocks	97	101	61	115	0	158	1,000 480lb bales
Production	32	34	60	67	0	67	1,000 480lb bales
Imports	804	882	827	987	0	1033	1,000 480lb bales
TOTAL SUPPLY	933	1017	947	1169	0	1258	1,000 480lb bales
Exports	0	0	0	0	0	0	1,000 480lb bales
USE Dom. Consumption	871	900	894	1009	0	1100	1,000 480lb bales
Loss Dom. Consumption	1	2	1	2	0	3	1,000 480lb bales
TOTAL Dom. Consumption	873	902	896	1011	0	1102	1,000 480lb bales
Ending Stocks	61	115	51	158	0	156	1,000 480lb bales
TOTAL DISTRIBUTION	933	1017	947	1169	0	1258	1,000 480lb bales

Table 3: Cotton, Import Trade Matrix

Import Trade Matrix			
Country:		Units:	Metric tons
Commodity:			
Time period:	Aug-Jul		
Imports for	2000		2001
U.S.	40000	U.S.	62000
Others		Others	
CIS	48000	CIS	52000
Africa	37000	Africa	32000
Australia	22000	Australia	24000
Pakistan	22000	Pakistan	20000
South America	8000	South America	10000
Total for Others	137000		138000
Others not listed	15000		15000
Grand Total	192000		215000

Sources: Bangladesh Textile Mills Association, Ministry of Textile, GOB

Table 4: Yarn, Import Trade Matrix

Import Trade Matrix			
Country:		Units:	Metric tons
Commodity:	Cotton Yarn		
Time period:	Jan-Dec		
Imports for	2000		2001
U.S.	0	U.S.	0
Others		Others	
India	234000	India	228000
Pakistan	22000	Pakistan	21000
Indonesia	14000	Indonesia	14500
Thailand	14000	Thailand	16000
Taiwan	8500	Taiwan	10000
Total for Others	292500		289500
Others not listed	17500		18500
Grand Total	310000		308000

Sources: Bangladesh Textile Mills Association, Ministry of Textile, GOB

Table 5: Fabrics, Import Trade Matrix

Import Trade Matrix			
Country:		Units:	Mil. Meters
Commodity:	Fabric		
Time period:	Jan-Dec		
Imports for	2000		2001
U.S.	0	U.S.	0
Others		Others	
China	2070	China	2020
Pakistan	200	India	180
India	145	Pakistan	175
Indonesia	50	Thailand	60
Thailand	45	Indonesia	45
Total for Others	2510		2480
Others not listed	40		40
Grand Total	2550		2520

Source: Bangladesh Garments Manufacturers and Exporters Association (BGMEA)
Ministry of Textile, GOB
Ministry of Commerce, GOB
Bangladesh Bank

Table 6: Production and Consumption estimates of Yarn and Fabrics by years

Year	Productions		Consumptions	
	Yarn ('000' tons)	Fabrics (Mill. Metres)	Yarn ('000' tons)	Fabrics (Mill. Metres)
1998/99	120	1050	480	3600
1999/00	145	1160	488	3650
2000/01	174	1172	494	3675
2001/02	186	1190	495	3700

Sources: Bangladesh Textile Mills Association (BTMA)
 Bangladesh Garments Manufacturers and Exporters Association (BGMEA)
 Ministry of Textile, GOB

Table 7: Duty Structure of Textile Sector

Items	Import Duty	VAT	Advance Income Tax	Devt. Surcharge	License Fee LF	Excise duty (local sale)
Raw Cotton	-	-	-		-	-
Man-made Fibre	-	-	3%	2.5%	2.5%	-
Yarn	5%	15%	3%	2.5%	2.5%	Tk. 1.5/kg
Fabric	37.5%	15%	3%	2.5%	2.5%	Tk.0.50/kg
Dyes /Chemicals	5 - 25%	15%	3%	2.5%	2.5%	-
Starch/Glue/Gum	5%	15%	3%	2.5%	2.5%	-
Machinery	-	-	-	-	-	-
Spare Parts	5%	-	3%	2.5%	2.5%	

Source: National Board of Revenue (NBR), GOB

Table 8: Area and Production of Raw cottons in Bangladesh during last five years

Year	Area (hectare)	Production	
		Bales*	Tons
1997-98	53000	97700	17763
1998-99	44700	62350	11336
1999-00	48260	83575	15195
2000-01	29100	40500	7364
2001-02	51100	80000	14545

*1 bale = 400 lbs.

Source: Cotton Development Board (CDB)

SECTION III: NARRATIVE ON SUPPLY, DEMAND POLICY AND MARKETING

Production

Cotton produced in Bangladesh is medium long staple, commonly known as American cotton. It is a monsoon (Kharif season, fall harvested) crop. The sowing season occurs between the last week of June and mid August. Although cotton is a relatively high land crop, with the expansion of irrigation facilities, its production area is facing gradually tougher competition from summer and early winter crops like vegetables, potato, sugarcane, and wheat. The cultivated area depends largely on price incentives provided by the Government in relation to the competing crops.

The Cotton Development Board (CDB) has reduced the procurement prices of all kinds of seed-cotton by Tk 2.00 per kilogram (kg.). Depending on the ginning out turn of fiber they have fixed the procurement price of seed-cotton at Tk.21 to Tk.25 per kg. which was Tk.23 to Tk.27 per kg. last year. The main factors influencing the CBD decision were depressed cotton prices in the international market, diminishing demand from the domestic cotton industry sector, and official and unofficial border trade of Indian yarn. As a result, the MY2002/03 cotton cultivation area is likely to be adversely effected.

The spinning sub-sector of the industry has been growing very fast in recent years. Eight new spinning mills will be starting production of knit yarn this year to increase the sectors capacity to fulfill nearly 100% of knit yarn requirements of the export oriented ready made garments (RMG) sector. Presently Bangladesh has 158 spinning mills; 151 weaving mills (35,500 loams); 282 dying/finishing mills; 155 knitting, knit dying and & finishing units; and 3000 ready-made garments units. This industrial base is capable of supplying around 85 percent of the knitwear fabrics and 20-25 percent of oven fabrics for the country's export-oriented RMG sector. Industry sources estimate that the country needs 229 spinning mills (25,000 spindles each), 322 weaving mills (about 10 million meters per year capacity each) and 317 dying/finishing mills (about 10 million meters per year capacity each) to meet the current level of domestic and export demands for hosiery, knitwear, and garments.

The textile sector is the largest manufacturing sector in Bangladesh accounting for 5 percent of the country's GDP, and providing 50 percent of industrial employment. This single largest sector in Bangladesh has invested US\$1.65 billion in 480 industrial units. This industry contributes more than 40 percent of the industrial value addition for the country.

Production policy

The Cotton Development Board (CDB) of Bangladesh has been providing production and marketing support to the upland cotton farmers since its inception in 1972. The CDB has three farm-based research, training, and seed multiplication centers and one breeding center. The farmers get HYV seed supplies and technical training on cotton cultivation from CDB centers. CDB also arranges soft bank loans for the growers, ginners and baling units and operates 8 ginning and baling centers to provide

support to the cotton growers and traders.

The small-scale handloom industry is also being supported by the Government and non-governmental organizations (NGOs) in the form of small-scale loans, buybacks of products, and training. The major problems of this sector are a lack of working capital, insignificant technical back ups in designing and quality improvement and hard competition from similar products, formally and informally, imported from India.

Recognizing the importance and immense potential of the textile industry in Bangladesh, the Government formulated Textile Policy 1995 with a view to achieve self-sufficiency in yarn and fabrics to meet the requirement of the knit/RMG industry through the establishment of backward linkages. The Textile Policy 1995 envisaged the establishment of 246 spinning mills with 25,000 spindles each, 481 weaving mills each with the capacity to produce 17 million meters of fabric, and 481 dyeing-printing-finishing units each with the equal capacity to process the above quantity of fabrics by the year 2005. Moreover, with a view to provide investment incentives to the entrepreneurs the Government of Bangladesh lowered the rate of bank interest to 9 percent from 10 percent for investment projects in the textile sector.

Consumption

Bangladesh produces only 10-15 percent of the cotton requirement of the country and the rest is imported to fulfill the requirements of the spinning mills. Cotton is regaining its share against man-made fiber due to favorable prices. However low-cost fabrics such as polyester and poly blends are still popular among the lower and medium lower class populations of the country. The further growth in consumption of cotton will be determined by the import prices of cotton relative to prices of man-made fiber, and more importantly import prices of yarn and fabrics.

Trade

The insignificant domestic supply of cotton in Bangladesh has no impact on the volume of imports. Hence, raw cotton imports are growing along with industrial demand. Competitive prices of US cotton helped expand the share of US exports from 21 percent in MY2000/01 to 29 percent in MY2001/02. The textile sector, during the July-January period of the current fiscal year, earned US\$2.73 billion, which is 70 percent of the country's total export earnings during the same period. However these earnings are 13.7 per cent less than the target and 6.39 percent less than the actual achievement during the same period of the previous fiscal year (2000/01). July-January exports to the US in 2001/02 were US\$1.12 billion while the previous year was US\$1.27 billion, a 12 percent drop. Bangladesh trade sources said that they faced a serious set back because of the impact of TDA-2000 (Trade Development Act-2000), under which the US offers duty and quota free access to garments made in the African, Sub-Saharan and Caribbean region. Furthermore, the September 11 terrorist attacks worsened the situation. The present crisis in the garments sector of Bangladesh may also be attributed to the economic recession in the developed world that began in 2000 and the impacts of NAFTA.

Trade Policy

The existing capacity and efficiency of the textile industry of the country are not enough to compete with the global textile market. Bangladesh's garment industry heavily depends on imports of textile machinery, dyeing and finishing chemicals, and fabrics (specially woven) for its operation and growth. Therefore, to cope with the present crisis and to retain its status in the export of RMG, especially following the globalization of the textile market under the GATT agreement and the eventual phasing out of the Multi Fiber Agreement (MFA) in 2005, the government and business leaders of the industry are jointly directing their efforts to the development of backward linkage industries in the RMG sector.

Recently, the Government has reduced cash incentives for the export oriented textile sector from 25 percent to 15 percent. These incentives will continue until June 2003. In FY2003/04, this will be reduced to 10 percent and in FY2004/05 to 5 percent. Beyond 2005, there will be no cash incentives. In an effort to reduce pressure on foreign exchange reserves the government has adopted a 100 percent LC margin on imports of textile fabrics other than those used for back-to-back LCs for the export-oriented garments industries. (The duty structure for the textile sector is shown in Table 6.)

Marketing

The cotton marketing system of Bangladesh is very traditional. Hand picked seed-cotton is brought to the market for selling to the ginners, who after buying gin, press and bale the cottons (in 400 lbs bale each). However, the Cotton Development Board procures a portion of the harvest at a premium price (15-20 percent above the market price) from the contract growers (of CDB). The cottonseed separated from the procured seed-cotton are preserved by CDB and distributed to the farmer for next years sowing at a concessional price (Tk.10 or US\$ 0.20 per kg).

The private sector mills account for 95 percent of total imports of cotton. CIS cotton is the strongest competitor for US cotton in long staple varieties while the Australian, African and South American cottons compete with the US cottons in medium staple varieties. The timeliness and quality of US cotton has earned the respect of Bangladesh importers and they are ready to pay a premium price for it.

Bangladesh Textile Mills Association (BTMA) claimed that due to the adoption of modern technologies in the new generation textile mills, the quality of local yarns are at present far better than Indian yarns. BTMA sources informed us that India was selling yarn (30 count) to Bangladesh at US\$1.80 to US\$1.90 per kg, while the freight on board (FOB) price of the same in the international market was US\$2.50 per kg. They argued for 25-30% counter veiling duty on Indian yarn to make a level playing field for the local manufacturers. To alleviate the situation the Government has imposed a ban on imports of Indian yarns through land ports. The garment exporters associations have reacted against this government decision and demanded the lifting of the ban immediately. They are also arguing for the implementation of the SAARC. Accumulation rule, a special rule offered by the EU that would allow exports to enter the EU on favorable terms. The Bangladesh Textile Mills Association (BTMA)

however, opposed this idea because of the fear that this might increase imports of Indian fabrics and jeopardize the long cherished efforts to develop backward linkage industries in the textile sector of Bangladesh.